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C O N F I D E N T I A L SECTION 01 OF 06 MANAGUA 000820

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SUBJECT: EEB A/S SULLIVAN MEETS WITH OPPOSITION LEADER AND
BUSINESS COMMUNITY

Classified By: Ambassador Paul Trivelli for reasons 1.4 b&d

11. (C) Summary: During his February 27 visit, A/S Sullivan received messages of concern from Nicaragua's main opposition leader and members of Nicaragua's American Chamber of Commerce. Both expressed concern over Ortega's recent moves to divide and conquer the business community. They also called for increased publicity on the results of CAFTA and other assistance programs to counteract the ever present news about Venezuelan assistance. A/S Sullivan responded that the business community should stand together and not be picked off one-by-one if the new government begins to selectively enforce or undermine contract and property rights. A/S Sullivan emphasized that the U.S. is committed to partnership through the U.S. Total Economic Engagement strategy and that it is critical for Nicaragua to continue to push-ahead microeconomic reforms necessary to take further advantage of CAFTA, MCC, and other USG programs. The A/S encouraged the business community not to trade macroeconomic stability for democracy, and stated that he hoped that the private sector and USG programs would help constrain any dramatic undemocratic moves by Ortega. (Note: A/S Sullivan's speech and Q&A's from the AMCHAM events start in para 9. End note.)
End Summary.

12. (SBU) During separate meetings on February 27, A/S Sullivan received messages of concern and nervousness from Nicaragua's opposition leader Eduardo Montealegre and the Executive Board of the American Chamber of Commerce in Nicaragua (AMCHAM). Both raised concerns over Ortega's commitment to maintain an open and transparent business climate and the dominating FSLN message to the Nicaraguan public.

The Private Sector Focused on Touting CAFTA, Benefits of Trade and Investment

13. (C) The AMCHAM Executive Board's primary concern was President Ortega's efforts to divide and conquer the business community. Board members stated that the media's focus on Venezuela's assistance to Nicaragua * including concessional oil deals and housing projects * was countering in the public mind the positive messages of CAFTA, recent macroeconomic policies, and foreign investment. The Board wanted help in publicizing the dramatic increase of exports under CAFTA and highlight debt relief and other USG programs as a counterweight to President Ortega's focus on the

promises of the Bolivarian Alternative for the Americas (ALBA). A/S Sullivan noted that a central purpose of his trip was to highlight the significant benefits and real results of economic engagement with the U.S. AMCHAM committees are creating public positions on rule of law and economic abuses on the part of the GON. A/S Sullivan applauded this move saying that it is not just businesses at stake, but the future of Nicaraguan democracy. A/S Sullivan emphasized that as part of our Total Economic Engagement partnership, there were several reform areas the GON needed to target, including regulations to start a business, taxes, and land titles. These reforms are critical to spreading benefits of programs such as CAFTA and MCC. Following the meeting with the AMCHAM Executive Board, A/S Sullivan delivered a televised speech and Q & A session to the AMCHAM (see para 9).

The opposition is concerned

14. (C) During his meeting with Montealegre, A/S Sullivan described his meeting with Ortega and the concerns relayed by the business community. Montealegre replied that the future of democracy in Nicaragua rests with the National Assembly, as it is the only institution not dominated by the FSLN. Its ability to keep President Ortega in check, however, depends upon Liberal unity and blocking President Ortega's end-runs around the institution. Montealegre was not optimistic. As an example, he cited President Ortega's 2007 budget, just approved by the National Assembly. Montealegre, a former Finance Minister, said the budget is fiscally responsible, meets IMF terms, and is similar to the one proposed by outgoing President Bolanos in October 2006. The new budget increases in health and education spending, using newly committed moneys from donors and IDB debt forgiveness, while maintaining a small fiscal budget deficit. Montealegre fears, however, that the GON intends to funnel Venezuelan and Iranian foreign assistance outside official channels. Not only would such a move violate Nicaragua's budgetary laws, it also would allow Ortega to ignore legal spending restrictions.

15. (C) Montealegre echoed business community concerns regarding President Ortega's actions and the FSLN publicity machine. He stated that Ortega is repeating his divide-and-conquer business policies of the 1980s, when he favored a few "patriotic entrepreneurs" and left the rest to fend for themselves. Montealegre also lamented all the publicity for the FSLN and ALBA when real results are flowing from CAFTA and other donor programs. He asserted that Nicaragua has a "chicken and turtle" problem: a chicken makes a lot of noise but only lays one egg. A turtle lays hundreds of eggs in silence. According to Montealegre, the donors and the opposition are turtles who need to learn to squawk like chickens.

16. (C) A/S Sullivan shared AMCHAM's concerns about the USG message not getting out. For example, following CAFTA implementation, exports have risen 24%, but the press appears focused only on "Mr. Chavez's barge of oil." A/S Sullivan noted that Nicaragua has access to a 13 trillion dollar economy and there is much opportunity for investment and growth. He asked Montealegre whether he thought MCC criteria --including ruling justly, investing in people and business climate -- would help discipline Ortega? Montealegre indicated that he believed the indicators would be very helpful in restraining Ortega, and that the Sandinistas were looking to expand engagement in other economic areas, including through a new IMF program. At the same time, Montealegre cautioned that unless someone stops Ortega, he will continue to mimic Venezuela and use democratic institutions to achieve what he wants.

17. (C) Montealegre also shared some insights on the Ortega cabinet. He stated that no minister makes a decision without consulting President Ortega or one of his top three or four strategists such as National Policy Advisor Paul Oquist, Economic Policy Advisor Bayardo Arce, and First Lady Rosario

Murillo. The strongest moderating influence in this group, in his opinion, is Murillo.

Taking a United Stand

18. (C) A/S Sullivan emphasized that the private sector is attentive to Ortega's moves and that this group could potentially provide leverage if Ortega starts to get out of control. He emphasized that U.S. vision's empirical data did not draw as much attention as the sound bites of competing visions, but he hoped at the end of the day, the people of Nicaragua would see that U.S. programs were providing Nicaragua the greatest benefits.

Speech and Q&A's From AMCHAM February 27 Televised Event

19. (U) A/S Sullivan Speech to the American Chamber of Commerce event

BEGIN TEXT

- Thank you Margarita Sevilla for the introduction. I am delighted and honored to be here in this beautiful country. It is my first time here and I have greatly enjoyed it.

- I just read the core values of the AMCHAM mission statement and I agree fully with those values and with what this organization is trying to accomplish in Nicaragua.

- Perhaps the most important thing that I can say and convey to you is the following) the United States Government, President of the United States, Secretary Rice, and others are committed to working with the people of Nicaragua, its government and President Ortega. We are committed to work together to consolidate democracy, rule of law, property rights, and create economic opportunities for sustained economic growth and poverty reduction for Nicaragua.

- It is important to note that these goals of economic growth, poverty reduction and anchoring democracy are all interrelated, as President Bush has stated, "open trade and investment bring healthy, growing economies, and can serve the cause of democratic reform. With CAFTA, our purpose is to strengthen the economic ties we already have with the countries of Central America and to reinforce progress toward economic, political, and social reform."

- Ladies and gentlemen, I believe that we stand at a moment of great opportunity. At the signing of CAFTA in 2004, United States Trade Representative Robert Zoellick, former Deputy Secretary, noted a tragic cycle that occurred throughout the 20th century. "Conflict in Central America would draw in the United States. The intervention was frustrating for all sides. Problems were patched over, but not truly solved. Civil rights were lost, dictators tightened controls, rebels were radicalized, blood was shed, neighboring countries turned against one another, and the poor, hard-working citizens in Central America lost chance after chance to better their lives in freedom."

- But that was the past) the future is much brighter for many reason, but perhaps the most important reason is because of the courage of the people of this region, the courage of the people of Nicaragua to embrace democracy and reject violence, and to negotiate and ratify a free trade agreement with its neighbors, including the U.S., with a much larger economy) this takes courage and I and my government applaud you for this. (applause)

- CAFTA is the cornerstone of this brighter future and period of opportunity. It gives Nicaragua permanent duty free access to the largest economy in history) approximately \$13 trillion. Whenever I travel Ministers always tell me that they want an FTA, but with CAFTA you have one and we need to look at ways to take advantage of the agreement.

- CAFTA will do much to create the new economic opportunity that will bolster the democratic commonwealth in the hemisphere. It will eliminate tariffs, open markets, promote transparency, and establish state-of-the-art rules for 21st Century commerce.

- CAFTA is a vital element of our economic relationship with Nicaragua and with our other partners. Through it, we are working with your political and business leaders to support continued economic reforms which will help promote prosperity and buttress freedom and democracy.

- CAFTA has brought concrete economic gains to Nicaragua. For example, during the first seven months of 2006 compared to 2005, watermelon sales to the U.S. almost quadrupled and cigar exports nearly doubled. U.S. supermarkets now import your agricultural goods, especially ethnic and organic foods, thereby benefiting small companies and farmers' cooperatives in your country. Overall, exports are up 24% -- first 7 months-- huge tangible results.

- In the wake of CAFTA, U.S. companies are pouring investment into Nicaragua. To cite just one example, ITG Cone Denim is building a \$100 million factory. Other U.S. companies have also started investing in your country since CAFTA entered into force in 2006 and others are looking to invest in projects that will create thousands of new jobs. These trade and investment linkages are vital opportunities to relieve poverty through job creation.

- But it is important to note that CAFTA is only one part of the story. What I am here to talk about is our strategy of Total Economic Engagement) a coordinated effort to integrate all our trade, assistance, development programs into one coordinated approach.

- So we have CAFTA, but we also have the MCC compact. The \$175 million MCC Compact will benefit the country by further connecting Nicaragua to the global trading system, promoting rural business development, helping grant the poor title to land, and by linking infrastructure development to farmers and small businesses to help get their goods to market.

- So we have CAFTA and the MCC Compact, but we also have substantial USAID programs. USAID is committed to trade capacity building and related programs totaling over \$250 million over a 5 year period. I just visited "Nicaraguan Handicrafts for Export Alliance." With the help and funding of USAID, this public-private partnership is providing assistance to artisans and farmers to connect to the global economy.

- In addition to CAFTA, MCC, and USAID programs, we have also provided significant additional debt relief to Nicaragua through the G8 and IDB. We will continue these important efforts. We are also working together on remittances) a powerful economic growth lever bringing tens of billions of dollars into the region.

- And on top of all these important economic instruments, we also have significant engagement with the Overseas Private Investment Corporation (OPIC). OPIC has invested \$200 million for low-income housing, small businesses, and agriculture in the entire CAFTA region. We are also looking at biofuels.

- Integrating all of these programs is an important part of our Total Economic Engagement strategy.

- But this strategy is more than just about coordinating U.S. programs) it is about partnership and engagement with Nicaragua and the Nicaraguan people and its government officials.

- So I am spending the day, talking to government ministers, American and Nicaraguan businessmen and women, business school students at INCAE) a very impressive group) about reforms here in Nicaragua that are needed to fit within and

reinforce Total Economic Engagement to address the very significant challenges that remain in this country such as poverty and inequality.

- So what are some of these reforms that the Nicaraguan Government should undertake as part of the Total Economic Engagement partnership?

- First, Nicaragua must continue to implement the economic reforms under CAFTA and MCC. Though CAFTA provides incentives and protections for greater investment and trade, legal and regulatory reforms are needed in order for exports to continue growing.

- Second, according to certain studies of economic freedom, Nicaragua especially needs to improve the process for registering property and starting businesses and paying taxes. Why? Because these kinds of hindrances make it difficult for entrepreneurs and investors to do business in your country. And without business people, it's difficult to create jobs and prosperity.

- Third, I believe a bit of friendly rivalry encourages positive competition and benefits us all. With regard to infrastructure) at \$1020 per container, it costs twice as much to export from Nicaragua as it does from El Salvador (\$515 per container). Better roads and ports to get products to market, and better processing facilities such as refrigeration units, will enable Nicaragua to develop a more dynamic role in the global economy beyond the maquila (textile and apparel) sector. We need to work on these reforms . . . together.

- That is the ultimate goal of our strategy of Total Economic Engagement here) to provide the resource flows that result in positive economic outcomes for nations that use these resources wisely for economic development and private sector-led economic growth. Far too few poor farmers and entrepreneurs are equipped to capture the gains of an increasingly global economy and an array of structural and supply side barriers limit small business access to markets, capital and expertise.

- Advancing those microeconomic reforms that bring jobs, growth and economic opportunity will also be essential to building a civil society and a democratic model of development in Nicaragua. By promoting the development of commercial skills that empower small farmers and entrepreneurs to enter into national, regional and global supply chains, we will ensure that the gains from CAFTA, the MCC Compact, private sector investment and other programs) all critical elements of our Total Economic Engagement) are broadly shared throughout society.

- Thank you very much. I look forward to your questions.

END TEXT

10. (U) A/S Sullivan's Q&A's at AMCHAM event

BEGIN TEXT

Q1. If you were a Nicaraguan, would you jeopardize a treaty with the U.S. for relations with countries such as Iran and Venezuela?

A1. As I mentioned in my speech, I have laid out the U.S. vision of what the U.S. believes should be driving economic principles: focus on free markets, transparency, commitment to democracy, and private sector-led growth leading to poverty reduction. Our strategy recognizes the close relationship between continuous economic growth and democracy. That is our vision for the region. I think is a positive vision, I think it is a vision that most Nicaraguans would share with most Americans, and the countries you named I don't believe share this vision. So it is obviously up to the government officials of this country to make that choice, but what I wanted to do is lay out the focus we have in terms of working with the people here, and I think, personally,

that is a very powerful vision.

Q2. How does the US government protect the interests of U.S. investors when the Nicaraguan armies, judges, alcaldias, etc., invade with weapons and take your properties away?

A2. I can not comment with any detail on the specific question because I do not know if it is based on fact. . . The more important element of that question, however, is that it is important to understand is that protecting foreign and Nicaraguan investment is integral to continued economic growth and poverty reduction. CAFTA has very strong investment protections, and this is something that since we are all CAFTA members, we are all countries that agreed to it. Investment protections benefit members of CAFTA and the U.S. and strong protection for FDI is a critical element for economic growth in this country and in the U.S. I think both governments share protecting investment as a critical component for continuing deepening our economic relations.

Q3. Are there plans to support the energy sector, given that there is growth in investment in this sector?

A3. I think most important plans will be from the private sector, but important for Nicaragua to create the conditions for the private sector to invest through by fostering a better business climate. Energy security issues are very important to the U.S. and also to this region. One area in particular that has been of focus and significant attention is the area of biofuels, and potential for biofuels to help replace imports of oil, which I think in a way will help the U.S. and countries of this region with regards to dependency on imports of oil. In the State of the Union speech, President Bush focused on potential for biofuels to replace imported oil. I think the Central American region in particular should view this potential in biofuels. In the U.S., this is something we need to explore, it has so much potential, it can help to create employment, but also, as I mentioned, help to diversify our sources of supplying energy.

Q4. Are there political elements that can diminish the economic compromises agreed to through CAFTA or is it unconditional?

A4. I think with regards to CAFTA, it is clearly an agreement that has been ratified by the U.S. Congress, and that is in effect between our two countries. It is actually a very important point because what distinguishes CAFTA from the different programs of the U.S. with other parts of the region, whether it is the CBI initiative or the GSP initiative, is that this initiative will allow significant duty free products to come in. CAFTA is permanent, so that can lead to long term investment plans by different companies in Nicaragua, and foreign companies that plan to invest here, and I think you have already seen that. The question also raises other concerns regarding the MCC, which is a very important component. The money has already been funded - \$175 million -. But there are indicators that focus on business climate issues and as the program is reevaluated, if these indicators mark a decline in terms of these kind of issues, then the program has a conditional element. We don't anticipate that at all, but that is one element that is important to know.

END TEXT

11. (U) A/S Sullivan cleared on this cable.
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